

HOUSE BILL REPORT

ESHB 1418

As Passed Legislature

Title: An act relating to community revitalization financing.

Brief Description: Promoting community revitalization.

Sponsors: By House Committee on Finance (originally sponsored by Representatives Gombosky, McMorris, Mulliken, Pennington, Ahern, Wood, Ogden, Benson, Reardon, Linville, Haigh, Miloscia, Simpson, McIntire, Santos, Rockefeller and Kessler).

Brief History:

Committee Activity:

Trade & Economic Development: 2/13/01, 2/22/01 [DPA];
Finance: 3/7/01, 3/8/01 [DPS(FIN)].

Floor Activity:

Passed House: 3/14/01, 77-20.
Senate Amended.
Passed Senate: 4/9/01, 35-10.
House Concurred.
Passed House: 4/21/01, 68-19.
Passed Legislature.

Brief Summary of Engrossed Substitute Bill

- Authorizes a new system of **property tax increment financing** where tax increment areas may be designated by a county, city, town, or port district within which a portion of the receipts from regular property tax levies are diverted away from local governments imposing the property taxes and distributed to the county, city, town, or port district to finance infrastructure improvements and programs within the tax increment area.

HOUSE COMMITTEE ON TRADE & ECONOMIC DEVELOPMENT

Majority Report: Do pass as amended. Signed by 11 members: Representatives Van Luven, Republican Co-Chair; Veloria, Democratic Co-Chair; Dunn, Republican Vice Chair; Eickmeyer, Democratic 1st Vice Chair; Fromhold, Democratic 2nd Vice Chair; Ahern, Gombosky, Jackley, Mulliken, O'Brien and Woods.

Minority Report: Without recommendation. Signed by 1 member: Representative Pflug.

Staff: Steve Lundin (786-7127).

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill by Committee on Finance be substituted therefor and the substitute bill do pass. Signed by 10 members: Representatives Cairnes, Republican Co-Chair; Morris, Democratic Co-Chair; Berkey, Democratic Vice Chair; Roach, Republican Vice Chair; Carrell, Conway, Pennington, Santos, Van Luven and Veloria.

Staff: Steve Lundin (786-7127).

Background:

State voters defeated proposed constitutional amendments in 1973, 1982, and 1985 authorizing counties, cities, and towns to engage in tax increment financing or community redevelopment financing. Tax increment financing or community redevelopment financing is a method of redistributing property tax collections within designated areas to finance infrastructure improvements within these designated areas. Enabling legislation was enacted in 1982, along with the constitutional amendment that year, but the enabling legislation was **not** made contingent on the approval of the constitutional amendment that was defeated later that year.

The city of Spokane attempted to use this enabling legislation but the Supreme Court found the statute to be defective in 1995.

The state constitution requires all property taxes must be uniform on the same class property within the territorial limits of the authority levying the tax.

Summary:

Counties, cities, towns, and port districts are authorized to create tax increment areas within their boundaries where community revitalization projects and programs are financed by diverting a portion of the regular property taxes imposed by local governments within the tax increment area.

Community revitalization projects and programs include:

- Traditional infrastructure improvements, such as: (1) Street and road construction and maintenance; (2) water and sewer system construction; (3) sidewalks and streetlights; (4) parking, terminal, and dock facilities; (5) park and ride facilities

of a transit authority; (6) storm water and drainage systems; and (7) park and recreation facilities.

- Environmental analysis, professional management, planning, and promotion, management and promotion of retail trade activities, maintenance and security for common areas, and historic preservation.

A county, city, town, or port district may pledge and use the diverted regular property tax collections to pay principal and interest on general obligations issued to finance the community revitalization projects and programs. A nonpublic participant may be required to provide security to protect the public investment in the tax increment area.

Regular property taxes imposed by all local governments within the tax increment area on **75 percent** of any increase in assessed valuation occurring in that area after its creation are diverted to finance the projects. Regular property taxes imposed by any local government on all of the remaining value (the assessed valuation in the year before the tax increment area was created plus 25 percent of any increase in assessed valuation in the tax increment area) are distributed to the local governments as if the tax increment area had not been created.

The state's property taxes are not affected. Most regular property taxes imposed by port districts and public utility districts are subject to this potential diversion, but port district and public utility district regular property tax levies that are allowed specifically for bond retirement purposes are not affected. The county, city, town, or port district creating the tax increment finance area may agree to reduce the amount of property taxes that is diverted.

Each local government taxing district authorized to impose regular property taxes is granted the express authority to provide the infrastructure improvements financed by a property tax increment financing, but if the taxing district is not otherwise granted this authority, the additional authority is only provided to the extent the taxing district agrees to participate in the tax increment financing.

The projects financed by property tax increment financing must be expected to encourage private development within the tax increment area and increase the fair market value of real property within the tax increment area. Private development that is anticipated to occur within the tax increment area, as a result of the public improvements, must be consistent with the countywide planning policy adopted by the county under the Growth Management Act and the county's, city's or town's comprehensive plan and development regulations adopted under the Growth Management Act.

Any diversion of county road district regular property tax levies for such purposes is allowed without penalizing the distribution of state highway moneys to the county.

Limitations under what is called the 106 percent limitation continue whether or not a tax increment area has been created.

A direct or collateral attack on a tax increment area must be commenced within 30 days of the date the county, city, town, or port district publishes a notice that the tax increment area has been created.

The creation of an tax increment area involves a number of steps, as follows:

- The county, city, town, or port district adopts an ordinance designating the tax increment area within its boundaries and specifies the public improvements to be financed.
- The tax increment area may not be established unless the local government taxing districts (not including the state) imposing at least **75 percent** of the regular property taxes within this area sign written agreements approving the tax increment financing.
- A public hearing on the proposal is held.
- Any fire protection district with territory located in the increment area must approve the creation of the increment area.
- The county, city, town, or port district adopts an ordinance establishing the tax increment finance area.

Appropriation: None.

Fiscal Note: Not Requested.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Testimony For: (Trade & Economic Development) This will finance infrastructure and encourage development. This is creative financing. We have lost some economic development to Idaho which uses tax increment financing.

Testimony For: (Finance) (In support) Generally the same as in the policy committee.

(Concerns with original bill) Fire districts should have their levies protected from diversion to non-fire protection purposes. Property taxes are the only source of revenue for fire protection districts. Metropolitan park districts should participate in these economic development programs. County's need protection too from diversion of their property tax levies.

Testimony Against: (Trade & Economic Development) **Testimony With Concerns:** We have some concerns about only having governments imposing 60 percent (rather than 100 percent) of the taxes having to approve the tax increment financing project.

Testimony Against: None

Testimony Against: (Finance) None.

Testified: (Trade & Economic Development) (In favor) Scott Taylor, Washington Public Ports Association; Perry "Mike" Taylor, Spokane Area Economic Development Council; Todd Milke, Spokane Regional Chamber of Commerce; and Dave Arbaugh, city of Richland.

Testified: (Finance) Todd Mielke, Spokane Regional Chamber of Commerce; Roger Ferris, Washington Fire Commission Association; T.K. Bentler, Metro Parks Tacoma; and George Walk, Pierce County.